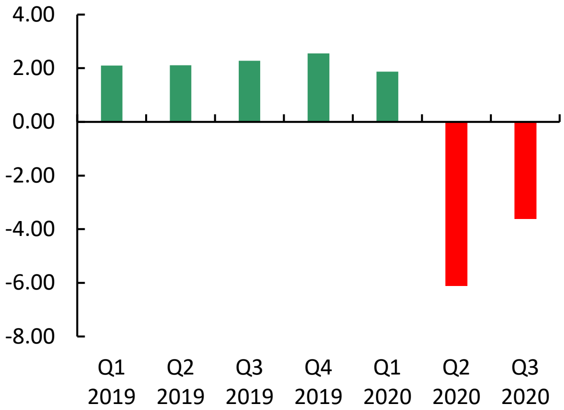
MERISTEM

Macroeconomic Update

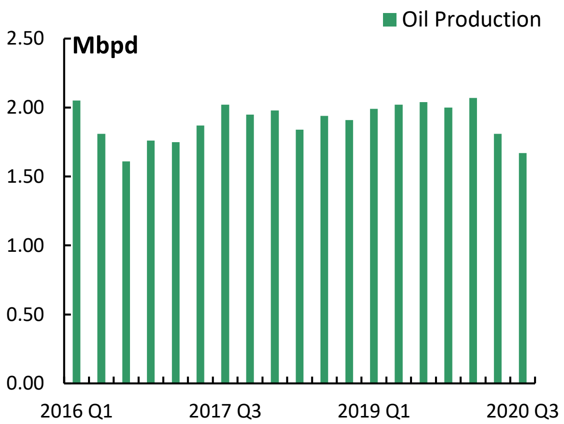
Post-GDP Report | Q3:2020

Chart 1: GDP Growth rate (%)



Source: NBS, Meristem Research

Chart 2: Average Daily Oil Production (Mbpd)



Source: NBS, Meristem Research

Economy Slips into Second Recession in Five Years

The recently released Q3:2020 GDP figures by the National Bureau of Statistics (NBS) reports real GDP to have contracted by -3.62%YoY. This marked the second consecutive quarterly YoY decline in 2020, plunging the economy into its second recession in five years. Real GDP for the quarter stood at NGN18.11trn (vs NGN18.70trn in Q3:2019), reflecting contraction in both oil (-13.89% YoY) and non-oil GDP (-2.51% YoY). While a steep decline in average daily oil production (4-year low) significantly contributed to the lower oil GDP, growth in non-oil sectors like quarrying and other minerals (+41.81%YoY) and Agriculture (+1.39%) pared the extent of contraction in non-oil GDP.

Double Whammy of Lower Oil Production and Weak Oil Prices Drag Oil GDP

During the quarter, the economy continued to reel from sluggish oil markets, despite easier lockdown conditions across the globe. Average crude oil prices between July and September stood at USD42.78/pb, 31.40% lower than an average of USD62.36/pb recorded in the corresponding period, last year. We also recall the slip in oil prices in late September following increased supply from Libya and China's stockpile build-up. In addition to the weaker oil prices, the deepening, and extensions of OPEC+ output cuts have taken a toll on Nigeria's oil earnings - especially following increased quota adherence levels. Consequently, average daily oil production for the quarter stood at 1.51Mbpd - its lowest since Q3:2016 when it came in at 1.49MMbpd. These reflected clearly in the performance of upstream players like SEPLAT whose 9M:2020 financial results mirrored a drop in working interest, as well as topline. SEPLAT's revenue from contracts with customers declined by 10.70% YoY

Barring sudden shocks to the oil market, we anticipate a slow and steady recovery in oil prices to kickstart from the second half of 2021. Whilst we expect prices to close at a year's average of c. USD45pb in 2020FY, brighter prospects pertaining to the COVID-19 vaccine developments, as well as OPEC+'s strong-willed approach to its commitments gives room for more upward movements.

COVID Containment Measures keep Non-oil Sector Pressured

The non-oil economy also slipped by -2.51% YoY in real terms, with worst contractions seen across the transportation and storage (-42.98%), accomodation and food services (-22.61%), education (-20.74%), Insurance (-18.67%) and real estate (-13.40%) sectors. Clearly, the laggards have been sectors most impacted by the lockdown measures in Q2:2020. We note that while reduced commuting to offices due to work from home policies may have impacted expenditure on transportation, airline operators have also had to grapple with capacity under-utilization in compliance with social distancing measures. Similar factors have affected hospitality service

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providers. However, PMI readings in November (50.02pts vs 49.40pts in October) showed that the contraction in manufacturing activities witnessed since May has been halted. This is on the back of expansions seen in sectors such as consumer goods, non-metallic mineral products, cement, textile, and transport equipment among others

GDP to Decline by -3.03% YoY in 2020FY

In Q4:2020, we expect to see some improvements domestic output, spurred by a gradual resumption of business activities following easier lockdown conditions. However, we highlight that while the fourth quarter typically produces a strong output performance, the trend is unlikely to be maintained in 2020 due to prevailing headwinds as the prevalence of the COVID-19 pandemic, rising inflation, lower disposable incomes and output loss caused by the social unrest at the beginning of the fourth quarter. While some sectors are showing promise, a lot still depends on performances of sectors like petroleum and coal, chemical and pharmaceuticals, electrical equipment, primary metals, Paper products and Fabricated metal products, which according to the November PMI data are still in the region of contraction**. Overall, we maintain our expectation for a GDP contraction of 3.03% YoY for 2020FY**.

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